

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the City of Detroit
Public Library Imprest Cash**

April 2006 - March 2008



City of Detroit
OFFICE OF THE AUDITOR GENERAL
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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: June 27, 2008
TO: Honorable City Council
FROM: Loren E. Monroe, CPA *Loren E Monroe*
Auditor General
RE: Audit of the Detroit Public Library's Imprest Cash
CC: Mayor Kwame M. Kilpatrick
Nancy Skowronski, Director, Detroit Public Library
Norman L. White, Chief Financial Officer

Attached for your review is our report on the audit of the Detroit Public Library's (Library) imprest cash. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; status of the prior audit finding; our audit findings and recommendations; and the response from the Library and the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Library and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the agency shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the Library for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General's reports can be found on our website at http://www.ci.detroit.mi.us/legislative/CharterAppointments/AuditorGeneral/audit_main_frame.htm

Audit of the Detroit Public Library's Imprest Cash

April 2006 – March 2008

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Detroit Public Library's (Library) Imprest Cash Fund was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of this audit was a review of the Imprest Cash Fund of the Library for the period April 2006 through March 2008.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- To determine whether the actual amount of the Imprest Cash Fund is in agreement with the authorized amount.
- To determine whether imprest cash transactions are properly authorized.
- To determine if imprest cash is safeguarded against loss, theft, and unauthorized or improper use.
- To determine if the Library is in compliance with the Finance Department's Imprest Cash Manual, relevant Finance Directives and other Finance Department policies.
- To conduct a follow-up review of any imprest cash-related audit findings from the prior audit report.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Review of the prior audit report of the Library.
- Interviews with staff of the Library, and documentation of the process for imprest cash transactions.
- Review of internal controls related to topics included in the City's Imprest Cash Manual, along with relevant Finance Directives and Finance Department procedures.
- Review of imprest cash documents from the Library and from the Accounts Payable Section of the Finance Department.
- An unannounced count of the imprest cash funds.

- Determination of the status of the finding and recommendation related to imprest cash included in the prior audit report.
- Other audit procedures that we considered necessary to achieve our audit objectives.

CONCLUSIONS

As a result of our audit we have concluded that:

- The actual amount of the Library's imprest cash was not in agreement with the amount listed in the Finance Department as the authorized amount.
- The imprest cash transactions were properly authorized.
- Imprest cash was not adequately safeguarded.
- The Library was not in compliance with the Finance Department's Imprest Cash Manual and relevant Finance Directives.
- There was one imprest cash-related finding in the prior audit report, which is discussed on page 4.

RECOMMENDATION

In addition to the specific recommendations included in the Audit Findings and Recommendations sections of this report, we recommend that the Library and the Finance Department consider terminating the imprest cash fund assigned to the Library and establish an imprest cash fund from Library funds rather than from the General Fund. The Library is funded from a property tax specifically designated for its operations. While the City collects this tax on behalf of the Library, the City does not provide any general fund support to the Library except for the imprest cash fund and does not appoint the Library Commission, which oversees and directs the Library.

BACKGROUND

The Detroit Public Library (Library), which opened on March 25, 1865, is administered by the Detroit Library Commission, a separate municipal corporation created as a result of a special state law in 1842 requiring the Detroit Board of Education to establish a district library. The Commission consists of seven members, six of whom are appointed by the Detroit Public School Board of Education and the President of the Detroit Board of Education who is an ex-officio member of the Commission. The Library Commission appoints the Director of the Library. The current Director is Nancy Skowronski, who was appointed on May 20, 2003.

The Library, the largest library system in the state of Michigan, operates 23 branches in addition to the Main Library. The Library has a book collection of over 3.7 million catalogued volumes; this is supplemented by current periodicals, and an extensive Audio, Video and DVD collection. In addition, the library has up to 4 million pieces of manuscripts, sheet music, scores, photographs, pictures, and government documents. Over 800 public access computers provide customers with Internet access. Computer assistance and training is available at most library locations. Two bookmobiles make weekly stops to schools and community centers farthest removed from library locations.

The following table shows the budgeted appropriations, revenues, and number of staff, for the Library for the 2006-2007 and 2007-2008 fiscal years.

| | <u>Fiscal Year Ended June 30</u> | |
|-------------------------|----------------------------------|---------------|
| | <u>2007</u> | <u>2008</u> |
| Budgeted Appropriations | \$ 47,083,808 | \$ 53,203,417 |
| Budgeted Revenues | 47,083,808 | 53,203,417 |
| Number of Staff | 465 | 467 |

The Library has authorized imprest cash of \$8,800.00, which includes a checking account and petty cash at field locations and branches.

STATUS OF PRIOR AUDIT FINDING

The prior audit of the Library dated November 25, 1998 by the Office of the Auditor General included the finding listed below. The status of the finding is noted below.

Imprest Cash Responsibilities Were Not Adequately Separated and Was Accessible to Employees Other than the Imprest Cash Custodian (June 1993)

This finding has been partially resolved. The unresolved portion is discussed in Finding 3.

AUDIT FINDINGS AND RECOMMENDATIONS

1. The Actual Amount in the Detroit Public Library Imprest Cash Fund Did Not Agree with the Authorized Amount

The Detroit Public Library (Library) has an authorized imprest cash amount of \$8,800.00. As of March 31, 2008, the imprest cash balance was \$16,184.45. This amount included \$3,100.00 of funds transferred from another Library bank account to the imprest cash bank account. The net overage in the imprest cash account, excluding the \$3,100.00 due to another Library account, was \$4,284.45.

The Imprest Cash policy requires that the imprest cash fund must agree with the total amount authorized at all times. Shortages in imprest cash funds are to be reported immediately to the Mayor's Office, the Finance Director, and the Auditor General. Overages in imprest cash funds are to be deposited into a Treasury checking account.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual, Finance Directives and other City policies increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

All of the Library personnel that work with imprest cash stated that they had never received a copy of the Imprest Cash Manual and were not knowledgeable of its requirements.

Recommendations

We recommend that the Library:

- Ensure that the Imprest Cash Funds agree with the total amount authorized.
- Immediately return the \$4,284.45 overage to the Treasury Division.
- Report any shortages in the imprest cash fund to the Mayor's Office, the Finance Department, and the Auditor General, and remit overages to the Treasury Division.

2. Imprest Cash Funds Have Been Commingled with Other Funds

On three occasions in January and February 2008, the Library transferred funds into the Imprest Cash Checking Account from another Library bank account. The transfers totaled \$3,100.00. The \$3,100.00 has not yet been returned to the other bank account.

The Imprest Cash Manual prohibits the commingling of imprest funds with other funds.

When funds designated for specific purposes are commingled, accountability is reduced. The possibility that funds will not be used for their intended purpose is increased.

Two of the transfers were made to cover overdrafts in the imprest cash checking account. The third transfer was made to cover anticipated expenses that needed to be paid from the imprest cash account. The imprest cash checking account had been depleted because some expenses had not been reimbursed by Accounts Payable. In addition, some reimbursement requests were not always submitted in a timely manner in accordance with the Accounts Payable Division's procedure that requires that imprest cash reimbursement requests be submitted within thirty days of the end of the month in which the expenditure is made.

Recommendations

We recommend that the Library:

- Ensure that imprest cash funds are not commingled with other Library funds.
- Immediately reimburse the other Library bank account for the advances made to the imprest cash account.

3. Imprest Cash Funds Are Not Adequately Safeguarded

Imprest Cash is divided among a checking account and 38 petty cash sub-accounts assigned to various departments at the Main Library and the various branch libraries. Consequently at least 39 people have access to some of the imprest cash. The balances in the sub-accounts range from \$1.00 to \$905.00.

There is no documentation signed by the sub-account holders for the monies assigned to them. Audits are conducted for only two of the sub-accounts. Although discrepancies exist between the amounts assigned to some sub-accounts and the actual amounts on hand, no action has been taken to resolve the discrepancies.

The Imprest Cash Manual requires that all imprest cash funds must be safeguarded. It also requires that all imprest cash funds be audited periodically. Shortages in imprest cash funds must be reported immediately to the Mayor's Office, the Finance Department and the Auditor General and overages must be deposited into the appropriate general ledger account.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

All of the Library personnel that work with Imprest Cash stated that they had never received a copy of the Imprest Cash Manual and were not knowledgeable of its requirements.

Recommendations

We recommend that the Library:

- Obtain signatures of the employees that have been assigned portions of the imprest cash funds that are held as petty cash.
- Conduct periodic audits of all petty cash funds to ensure that petty cash amounts agree with the assigned amounts, and retain copies of the audits until the next audit by the Office of the Auditor General.
- Report any shortages in the petty cash funds to the Mayor's Office, the Finance Department and the Auditor General, and remit any overages to the Treasury Division.

4. The Library Did Not Fully Comply With The City's Imprest Cash Policies and Procedures, Finance Directives and Other City Procedures

Some City policies and procedures were not adhered to which weakened controls over the imprest cash process. These included:

- No alternate custodian has been named.
- There were no signed receipts for funds issued to the various holders of the 38 petty cash funds.
- The Office of the Auditor General's unannounced count of the imprest cash funds revealed minor shortages and overages in six of the thirty-eight sub-accounts. The procedures on handling shortages and overages, as stated in the Imprest Cash Manual, were not followed.
- Periodic audits were conducted for only two of the 38 sub-accounts.
- As of March 31, 2008, 69 vouchers over 60 days old had not been reimbursed by the Accounts Payable Division. These 69 vouchers totaled \$6,963.49.
- Monthly bank reconciliations were not completed within 45 days after the bank statement date, nor were they signed, dated or approved.

The Imprest Cash policy requires that:

- An alternate custodian must be designated.
- If a portion of the Imprest Cash Fund is comprised of a cash supply, the custodian of the fund must keep a written statement indicating the amount of cash given out.
- Shortages in Imprest Cash Funds are to be reported immediately to the Mayor's Office, the Finance Director, and the Auditor General. Overages in Imprest Cash Funds are to be deposited into a Treasury checking account.
- At a minimum, quarterly audits of the Imprest Cash Fund must be performed, and written records must be retained until the next audit by the Office of the Auditor General.

Other City policies require:

- All imprest cash reimbursement requests must be made within thirty (30) days from the end of the month in which the original purchase was made.
- Bank reconciliations must be completed no later than 45 days after the bank statement date, and they must be signed, dated and approved.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual, Finance Directives and other City policies increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

All of the Library personnel that work with Imprest Cash stated that they had never received a copy of the Imprest Cash Manual and were not knowledgeable of its requirements.

Recommendations

We recommend that the Library:

- Assign an employee to be the alternate custodian for the Imprest Cash Fund.
- Obtain signatures of the employees that have been assigned portions of the Imprest Cash Fund.
- Report any shortages in the imprest cash fund to the Mayor's Office, the Finance Department, and the Auditor General, and remit overages to the Treasury Division.
- Perform, at a minimum, quarterly unannounced imprest cash audits. The audits must be retained until the next audit by the Auditor General.
- Submit all reimbursement requests within thirty (30) days from the end of the month in which the original purchase was made.
- Complete bank reconciliations within 45 days of the bank statement date.

OTHER FINDING RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department Did Not Adequately Oversee the Imprest Cash Report of the Detroit Public Library

The June 30, 2006 year-end closing exhibit, which used the correct authorized amount of \$8,800.00, indicated an overage of \$496.42. The June 30, 2007 year-end closing exhibit used an authorized amount of \$9,084.84, which had been provided by the Finance Department and indicated an overage of \$2,386.53. No action was taken by the Finance Department to determine why the overages existed or why the overages had not been submitted to the Treasury Division.

The purpose of the year-end closing exhibits is to ensure that financial data is correctly recorded in the financial records of the City. This purpose can be accomplished only if the information is reviewed and verified by the Finance Department.

Failure to adequately review the information and follow up on discrepancies or errors can result in erroneous information being included in the financial records of the City. It also permits errors to remain uncorrected.

It has been the intent of the Finance Department to review and verify the data on the year-end closing exhibits, but due to the requirements of completing the Comprehensive Annual Financial Report (CAFR) and the lack of Finance Department personnel, this review and verification has not been performed.

Recommendation:

We recommend that the Finance Department review all year-end exhibits submitted for accuracy and completeness, and contact the submitting department or agency to resolve any errors or discrepancies.

DETROIT PUBLIC LIBRARY

5201 WOODWARD AVENUE, DETROIT, MICHIGAN, 48202 (313) 833-1000

NANCY SKOWRONSKI
Director

ATTACHMENT A

June 19, 2008

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Detroit Public Library's response for the indicated findings and related recommendations in the June 2008 audit of the Detroit Public Library's Imprest Cash, as prepared by the Office of the Auditor General. Our responses include the actions taken or to be taken regarding the recommendations, and the implementation dates or the targeted implementation dates for those actions.

Finding No. 1.

The Actual Amount in the Detroit Public Library Imprest Cash Fund Did Not Agree with the Authorized Amount

Detroit Public Library's Response

Ensure that the Imprest Cash Funds agree with the total amount authorized.

- **We Agree**

The Detroit Public Library had two different amounts \$8,800 and \$9,084.84 for authorized imprest cash. Inquiries made by the Library

regarding the correct amount were not addressed. Lack of communication between the Library and the Finance Department resulted in conflicting information regarding the authorized amount. The DPL expressed its concern for several years but there was no follow-up response.

The Library will ensure that the imprest cash funds agree with the total authorized amount.

Immediately return the \$4,284.45 overage to the Treasury Division.

- **We Agree**

Since March 2003, the Library imprest account was charged bank service fees. The information received states that the City of Detroit does not accept bank charges as valid reimbursable expenses. Therefore the Library has not been reimbursed for five (5) years. As a result, bank fees not reimbursed have accumulated to \$4,284.45.

The Library would appreciate a resolution of this problem. Once the Library is reimbursed for the bank charges the overage will be returned to the Treasury Division.

Report any shortages in the imprest cash fund to the Mayor's Office, the Finance Department, and the Auditor General, and remit overages to the Treasury Division.

- **We Agree**

The Detroit Public Library is not on the City of Detroit GroupWise. As a result, when accounting policies changes are e-mailed to City Departments, the Library is not on the distribution list. Therefore, several policy changes were not communicated to the Library. The Library reimbursement requests were not met because the Library did not comply with new policies. The result is that sixty-nine (69) vouchers over 60 days old have not been reimbursed. The total amount is \$6,963.49.

The Library would appreciate a resolution of this problem. Shortages in the imprest cash fund will be reported to the Mayor's Office, the Finance Department, and the Auditor General, and overages will be remitted to the Treasury Division.

Finding No. 2.
Imprest Cash Funds Have Been Commingled with Other Funds

Detroit Public Library's Response

Ensure that imprest cash funds are not commingled with other Library funds.

- **We Agree**

During the period January to March this fiscal year the Library had a major imprest cash emergency because imprest cash reimbursement requests were not met by the City of Detroit Finance Department (as stated above). The imprest cash fund borrowed \$3,100 from restricted funds in order to avoid high bank overdraft fees

We agree that the imprest cash funds should not be commingled with other Library funds.

- **Immediately reimburse the other Library bank account for the advances made to the imprest cash account.**

- **We Agree**

Once the Library is reimbursed for the bank charges and the vouchers (see response to finding # 1) the Library bank accounts will be reimbursed for the advances made to the imprest cash account.

Finding No. 3.

Imprest Cash Funds Are Not Adequately Safeguarded

Detroit Public Library's Response

We Agree

- We agree with the recommendation that the Library should obtain signatures of the employees that have been assigned portions of the imprest cash funds that are held as petty cash.
- We agree with the recommendation that the Library should conduct periodic audits of all petty cash funds to ensure that petty cash amounts agree with the assigned amounts, and retain copies of the audits until the next audit by the Office of the Auditor General.
- We agree with the recommendation that the Library should report any shortages in the petty cash funds to the Mayor's Office, the Finance Department and the Auditor General, and remit any overages to the Treasury Division.

Finding No. 4.

The Detroit Public Library Did Not Fully Comply With The City's Imprest Cash Policies and Procedures, Finance Directives and Other City Procedures

Detroit Public Library's Response

We Agree

- We agree with the recommendation that the Library should assign an alternate custodian for the Imprest Cash Fund.
- We agree with the recommendation that the Library should obtain signatures of the employees that have been assigned portions of the Imprest Cash Fund.
- We agree with the recommendation that the Library should report any shortages in the imprest cash fund to the Mayor's Office, the Finance Department, and the Auditor General, and remit overages to the Treasury Division.
- We agree with the recommendation that the Library should perform, at a minimum, quarterly unannounced imprest cash audits. These documents should be retained until the next audit by the Auditor General.
- We agree with the recommendation that the Library should submit all reimbursement requests within thirty (30) days from the end of the month in which the original purchase was made.
- We agree with the recommendation that the Library should complete bank reconciliations within 45 days of the bank statement date.

Sincerely,



Nancy Skowronski, Director
Detroit Public Library



CITY OF DETROIT
FINANCE DEPARTMENT

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Attachment B

June 26, 2008

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated finding and related recommendations in the April 2006 – March 2008 audit of the Detroit Public Library's Imprest Cash fund, as prepared by the Office of the Auditor General.

Finding No. 1. The Finance Department Did Not Adequately Oversee the Imprest Cash Report of the Detroit Public Library

Department's Response:

The Finance Department agrees with the Auditor General's finding and recommendations. As a result, the Finance Department will review all year-end exhibits submitted for accuracy and completeness and contact the submitting department or agency to resolve any errors or discrepancies.

Sincerely,

Norman L. White
Chief Financial Officer

NLW:VR:vr

Cc: Vance Russell
Mike Bridges
Maria Norfolk

